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SUBJECT: MINES 2006 PROMOTES INVESTMENTS IN SADC MINING PROJECTS

¶1. (U) Summary and introduction: Mines 2006, a regional mining conference held in Lusaka, highlighted project opportunities and matched potential investors and partners with capital and technical know-how with projects in Southern African Development Community member countries. In opening presentations at the three-day event (November 29 to December 1), speakers noted the challenges and opportunities in mining in the SADC region, and profiled a success story in Zambia's copper sector. Extensive information and reports, including country profiles, developed for the conference are available at the Mines 2006 website: www.mines2006.com; when required, the password to access information is "Zambezi." The event was hosted by the Zambian government and sponsored by the European Union and Southern African Development Community. End summary and introduction.

//Mixed GRZ messages on fiscal perks to mining//

¶2. (SBU) Zambian Minister of Mines and Mineral Development Kalombo Mwansa highlighted the GRZ's tax exemptions and other financial incentives for mining investments in his welcoming remarks to the 300-plus audience at Mines 2006, held in Lusaka from November 29 to December 1. At a subsequent briefing with local media he delivered a strikingly different message, which was carried in local papers on November 30. Under questioning, Mwansa said that the GRZ would announce a higher mineral royalty tax in early 2007, because the current 0.6 percent level was unrealistic in light of profits that the mining companies were making, thanks to higher copper prices and strong demand. Note: Since early 2006, senior Zambian officials have indicated that an upward adjustment of mining royalties was under serious consideration, to enable the people of Zambia to benefit more from the copper boom; privatization and concession deals with several mining investors had been struck at a time of very low global prices. The Finance Minister also reportedly said that the GRZ would review other tax exemptions and benefits granted to mining investors. End note.

//Sectoral analysis notes risks and challenges //

¶3. (U) Opening day sessions also featured the presentation of a "sectoral study" by its author, Victor Kelly. Kelly noted that the constant price of copper had fallen between 1880 and 2006, thanks to technological developments in mining. He surveyed the various risks involved in developing mining projects, including: unfavorable political conditions; uncertainty around global prices, which tend to follow boom/bust cycles; and long lead times (10 years or more) to develop projects. He noted the importance of following a competitive investment framework (CIF) and commented that government ownership requirements by some SADC member countries make them less competitive destinations for mining investment.

¶4. (U) To attract more investment in mining, Kelly encouraged SADC countries to ensure good governance, equitable social policies, environmental guardianship, mining regulations that are in line with international norms, and increasing cooperation of the scientific and geological agencies both within SADC and with international counterparts. Kelly summed up the key challenges facing the mining sector in the SADC region as: 1) funding for regional infrastructure and network integration, particularly for transportation and energy;

2) ensuring beneficiation, both in terms of adding value to minerals and building greater capacity in the SADC countries; and 3) addressing social and environmental responsibility.

//Zambia's Lumwana Success Story//

¶5. (U) Michael Richard, chief geologist, and Harry Michael, chief operating officer of Canada-based Equinox Minerals, gave an overview of the massive Lumwana mining venture in northwestern Zambia (near Solwezi). The executives noted that many past prospecting, exploration, and feasibility studies at the site did not translate into a full-blown project due to low copper prices and other timing factors. One key for the recent success so far has been the timing of the rise in copper prices, when a banking feasibility study was being finalized in 2003, followed by a definitive feasibility study in 2005. Higher copper prices also made financing easier to arrange, though not less complicated: 12 international banks are involved in several different financing arrangements for the venture. Equinox has raised USD 250 million in equity and is finalizing USD 574 million in financing for the Lumwana project. The executives also underscored the long lead times required for the project: 8 years to construction and 10 years to commissioning the mine operation, in 2008. The lifespan of the mine is estimated at 37 years, and Equinox expects to produce a total of 6.3 million tons of copper.

¶6. (U) Equinox continues exploration of various prospects in the Lumwana concession, and results continue to be encouraging. It hopes to see the amount of proved and probable copper ore reserves (currently 321 million tons, at two sites: Chimiwungo and Malundwe) increase. The grade of the copper ore is low: one-third of that typically found in Zambia's Copperbelt region, and one-tenth that found in the Democratic Republic of Congo. Lumwana also has an "indicated and inferred" uranium resource of 21.8 million pounds.

¶7. (U) The GRZ has been very supportive of the project, and President Mwanawasa attended an August 2006 groundbreaking ceremony. The Equinox executives noted the company enjoyed good relations with the Zambian national, provincial and local governments, including tribal leaders. The GRZ promised to maintain roads that connect the mine to rail lines. Equinox negotiated affordable electric power rates with national electric utility ZESCO for a long-term supply of power (15 years). ZESCO also will construct a 65-km power line extension to Lumwana. Equinox is entering into deals with smelters in Zambia and in the region.

¶8. (SBU) Comment: Although other mine operators, including Canada's First Quantum Minerals and South Africa's Metorex, have voiced concern about the legality of a possible increase in royalties, Equinox has not made any public comment. It is not clear how big an impact a higher royalty rate would have on Equinox's bottom line, or on Zambia's ability to attract more investment in the sector. Continued strong demand and high prices for copper are probably more decisive factors for investors in the sector.

MARTINEZ